R.O.B.

KEY TO THE NORTH

KEEN INDUSTRIES LTD.

ANNUAL REPORT 1975

FINANCIAL HIGHLIGHTS

	1975	1974
	(Thousands of Dollars)	
Revenues	$56,447	$26,229
Funds from Operations	$ 2,411	$ 1,731
Loss before extraordinary items	$ 1,016	$ 1,134
Loss for the year	$ 89	$ 1,134
Capital Expenditures	$ 9,720	$12,282
Earnings (loss) per share		
— Basic	$ (.73)	$ (.81)
— Extraordinary	$ .67	$ —
— Total	$ (.06)	$ (.81)

CONTENTS

Keen Industries Limited was incorporated under the laws of British Columbia, on July 4, 1962.

The annual meeting of shareholders will be held at the Chateau Lacombe Hotel at 10:00 A.M. on March 18, 1976 in the city of Edmonton, Alberta.

KEEN INDUSTRIES LIMITED AND SUBSIDIARIES

Executive Office

P.O. Box 5570, Stn. L.
on 76 Ave., and 26th St.
EDMONTON, Alberta T6C 4E9

Branches

Fort Nelson, British Columbia
Fort St. John, British Columbia
Fairbanks, Alaska
Fort Simpson, Northwest Territories
Grande Prairie, Alberta
Calgary, Alberta

Subsidiaries

Arctic Air Ltd.
Attachie Construction Ltd.
Belanger Holdings Ltd.
D. A. P. Rentals Ltd.
Eagle Industries Ltd.
Goodall Industries Ltd.
K-R-M Construction Ltd.
Keen-Lee Oil Ltd.
Keen Petroleum Ltd.
Keen Transport Ltd.
Lundgren's Pacific Construction Co., Inc.
Northern (Fort Nelson, B.C.) Air Service Co. Ltd.
Oilpatch Pipeline Services & Inspection Ltd.
Pine Well Servicing Company Ltd.
R. J. Keen Construction (1966) Ltd.
Streeper Bros. Marine Transport Ltd.
Tompkins Contracting Ltd.

Bankers

The Mercantile Bank of Canada

Transfer Agents

Guaranty Trust Co. of Canada

Auditors

Price Waterhouse & Co.

Solicitors

Ross-McLennan
Barristers & Solicitors

Stock Exchange Listing

Listed on Toronto and Montreal Stock Exchanges and Shares traded on the Over-the-Counter Market in the United States
Ticker Symbol Kee

DIRECTORS AND OFFICERS

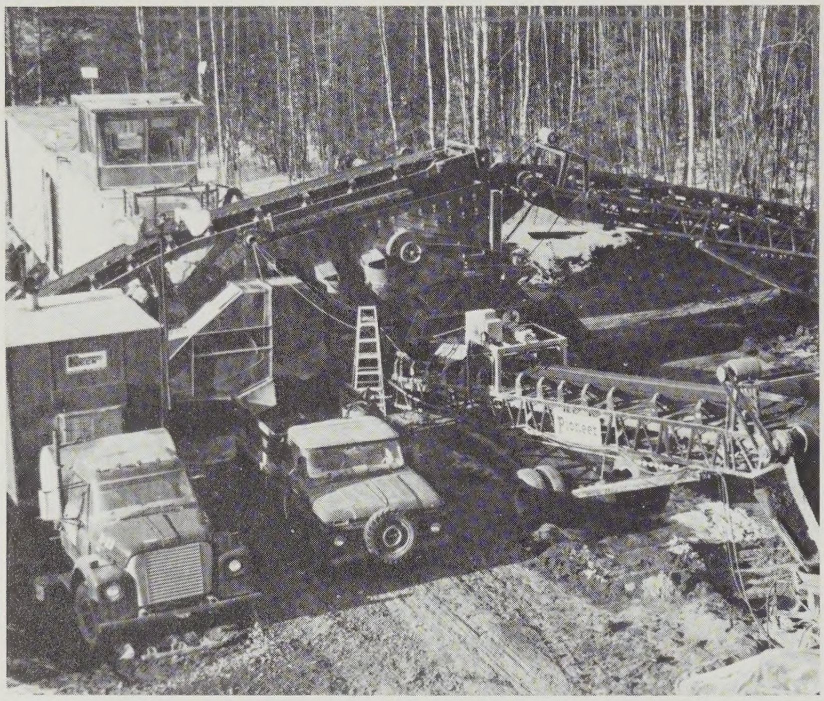
Directors

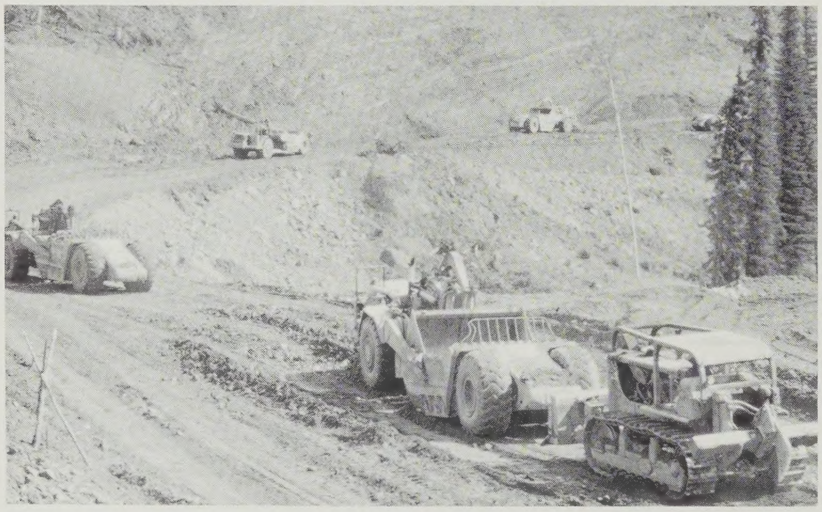
David J. Freeze/Chairman of the Board
Robert J. Keen
Bernard M. Ruys
George P. Bayer
Ronald N. Helmer
Roderick A. McLennan
Rombartus W. Scheffer
James L. Thom

Corporate Officers

President & Chief Executive Officer/
R. J. Keen
Vice President/ G. P. Bayer
Vice President & Treasurer/
C. J. B. McNamara
Vice President/ J. A. D. van Weelderen
Secretary/ D. C. Hetland
Deputy Treasurer/ H. A. Schaufele

REPORT OF THE DIRECTORS





In the last Annual Report we forecast a continuing drain on the financial resources of the Company due to losses expected on the British Columbia Railway contracts. During the past year more than half of the Company's construction force was committed to these unprofitable contracts. The extent of the resulting financial drain was such that although other major construction projects and operating divisions were profitable, the Company showed a loss for the year under review.

We are pleased to report that, after lengthy negotiations, an agreement was made with the B.C.R. in December 1975 under which the Company was given substantially increased unit prices for the remaining work on the project and paid $1,737,000 in settlement of past operational claims. The increased prices were determined from an extensive study on cost inflation that has occured since the B.C.R. contracts were bid. It was also agreed that the project may be completed using one camp rather than two as required in the past, which will result in substantial cost saving and improved efficiency. We are satisfied that the new terms for work on the project should allow completion of these contracts at a profit.

Financial Results

Revenue for the year ended October 31, 1975 totalled $56,447,000 which is an increase of $30,218,000 over 1974. Net loss was $89,000 or 6¢ per share (including extraordinary gains) compared with loss of $1,134,000 or a 81¢ per share in 1974. Seven drilling rigs and related equipment were sold for the sum of $4,100,000 resulting in an extraordinary gain of $726,000.

During the past year the Foreign Investment Review Agency approved purchase of Tompkins Contracting Ltd. and that company's revenue is included in the year end results.

Highlights of the activities of the Company's three operating divisions are as follows:

Construction Division

Operations were suspended on the B.C.R. project in July because of a blockade of the B.C.R. rail line supplying the south section of the project. The blockade was a protest demonstration by local Indians on issues not involving the Company. Although the blockade was lifted in late fall, suspension of operations continued during negotiations with the B.C.R. on settlement of the terms of ongoing work.

In December 1975 the Company opened a tote road to connect the north and south sections of the project. This was done for the dual purpose of accommodating the move to a single central camp and of ensuring a choice of

supply line from either north or south. Construction will begin in January 1976 on the remaining 46 miles of grade. Completion of work is expected by July 1977.

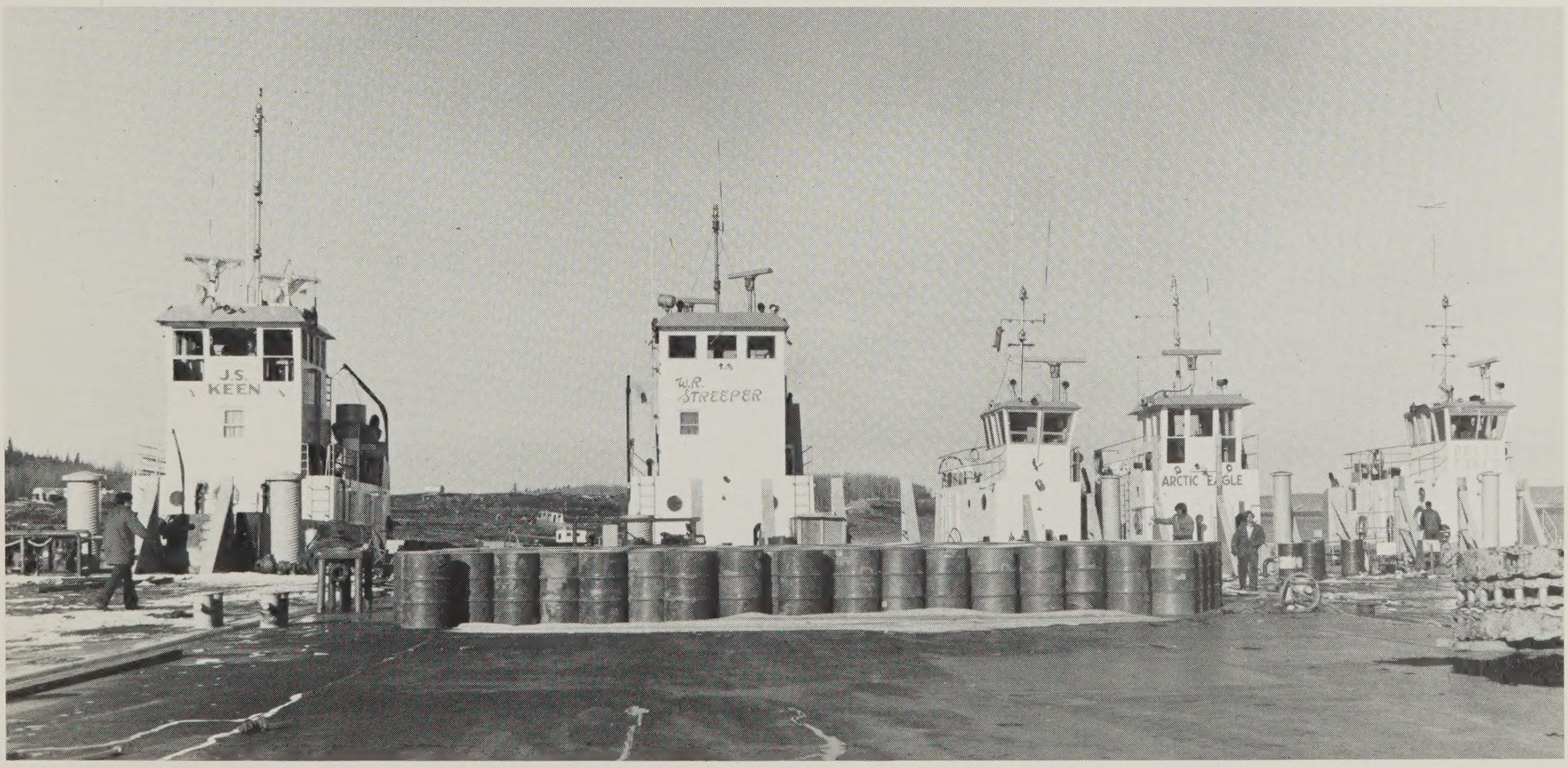
During the past year revenue from the B.C.R. project totalled $11,996,000. Although high production was achieved, the combination of out-dated prices, supply difficulties and continued fixed costs during suspension of operations resulted in serious losses.

The Dempster highway project progressed favourably and on schedule. Gross revenue for the year totalled $6,574,000. Profitability was satisfactory and should remain so until completion of the project in the winter of 1976/77.

The MacKenzie highway project proceeded ahead of schedule with good profitability. Gross revenue for the year totalled $5,704,000. Completion is expected in the summer of 1976.

Our Alaska subsidiary, Lundgren's Pacific Construction Co., Inc., had a profitable year. A road construction project and a sewer and water construction project were almost completed. Revenue totalled $10,019,000 which is double the highest revenue earned by that Company in any of its past thirty five years of operation.

Revenue from a number of relatively minor construction projects in Alberta, Northwest Territories and the Yukon Territories totalled $6,676,000. Except for one highway project near Yellowknife, all such projects were completed during the year. On the whole, those minor projects did not contribute to profits.



Transportation Division

The transportation division earned record revenue of $5,999,000. An operating profit was made primarily due to substantial improvement in the results for marine activities.

The marine equipment was utilized to 95% of capacity in serving charter and general cargo markets on the Beaufort Sea and the MacKenzie, Liard and Nelson rivers. In serving the general cargo market 20,000 tons of cargo was handled doubling the tonnage for the previous year. The fleet was enlarged by the addition of four new barges and upgraded by adding a new tug in replacement of a small obsolete vessel. The fleet is now fully modernized and consists of five tugs and seventeen barges. Docking facilities at Ft. Simpson and Inuvik were also improved.

Competition in trucking to Alaska intensified during the year. The ocean route between Seattle and Anchorage proved to be the most popular for Alaska freight due to the introduction of technological improvements in the shipping service between Seattle and Anchorage. As a result it was decided to abandon the truck service to Alaska. The costs incurred in instituting and subsequently abandoning the service to Alaska resulted in a loss for the year in trucking operations. However, the results of trucking operations for the Canadian market were encouraging and the integrated door-to-door service of trucking and barging has been well received by customers.

Arctic Air Ltd. showed a year end profit for the first time in the past three years. The charter base at Ft. Simpson, N.W.T. was sold leaving the Company with a single base for air charter operations at Ft. Nelson, B.C.

Petroleum Division

Revenue from the petroleum division totalled $9,479,000.

Drilling operations earned a gross revenue of $2,300,000 prior to sale of the seven drilling rigs last spring. The profitability of drilling operations was marginal.

Pine Well Servicing Company Ltd. again showed record revenue and profit in operating its thirteen service rigs.

Revenue and profit from oilfield hauling and construction by Tompkins Contracting Ltd. were satisfactory.

Modest expenditures were made for oil and gas exploration by Keen-Lee Oil Ltd.

Outlook

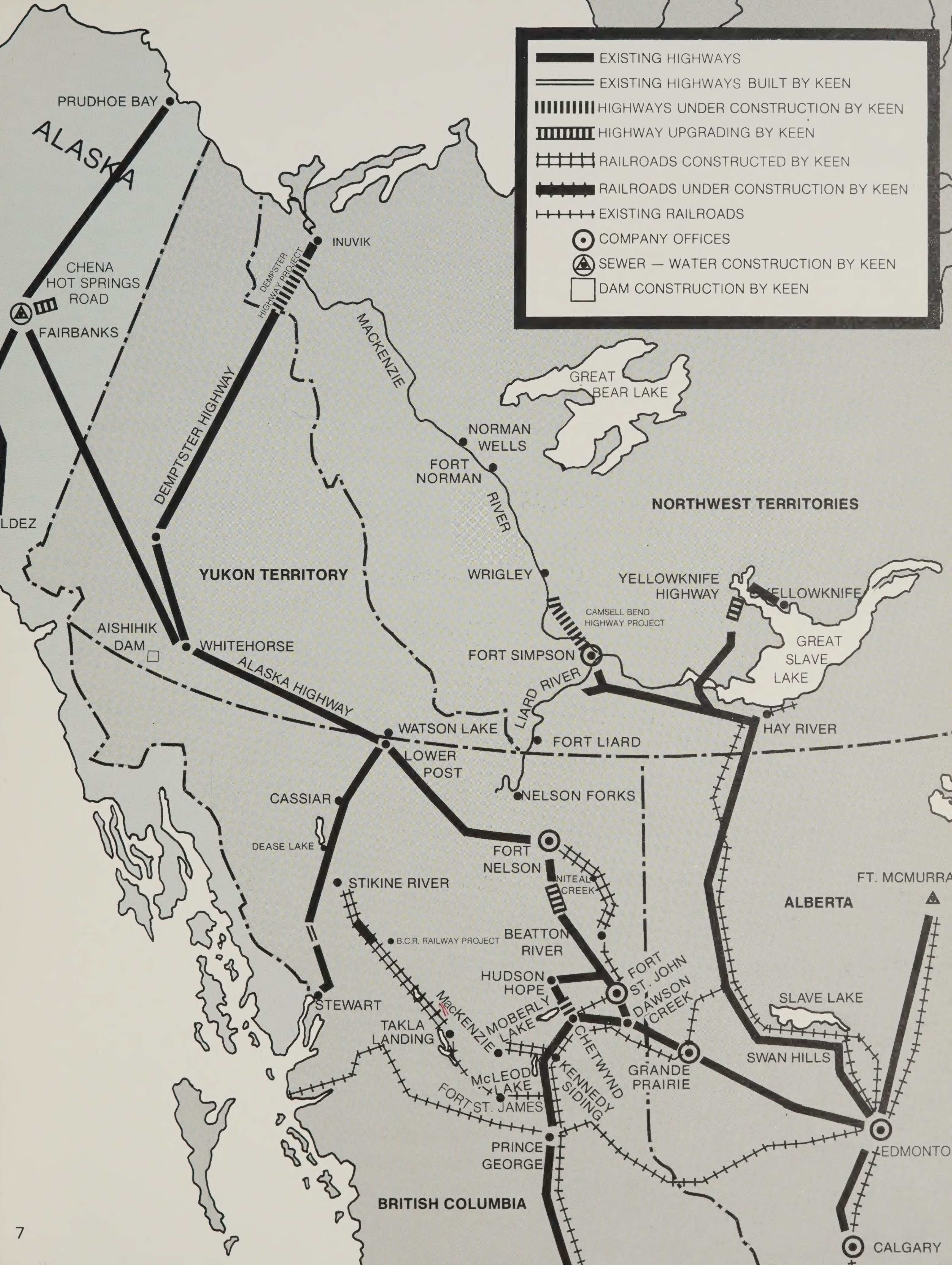
The construction division has under contract approximately $30,000,000 of future work. With new prices on the B.C.R. contracts the outlook for this division is favourable.

The prospects are also favourable for the transportation and petroleum divisions. Increased oil activity is indicated for Alberta and northern British Columbia, and, since year-end there has been a marked increase in demand for services of Tompkins Contracting Ltd. in oilfield construction and hauling.

In the coming year our efforts will be directed to improve profitability and efficiency. Priority will be given to improvement of the working capital position of the Company.

Your Directors extend thanks to the employees of the Company for their hard work and dedication over the past year.

R. J. Keen
President/on behalf of the
Board of Directors.
January 16, 1976


EXISTING HIGHWAYS
EXISTING HIGHWAYS BUILT BY KEEN
HIGHWAYS UNDER CONSTRUCTION BY KEEN
HIGHWAY UPGRADING BY KEEN
RAILROADS CONSTRUCTED BY KEEN
RAILROADS UNDER CONSTRUCTION BY KEEN
EXISTING RAILROADS
COMPANY OFFICES
SEWER — WATER CONSTRUCTION BY KEEN
DAM CONSTRUCTION BY KEEN
PRUDHOE BAY
ALASKA
INUVIK
CHENA HOT SPRINGS ROAD
FAIRBANKS
DEMPSTER HIGHWAY PROJECT
MACKENZIE
GREAT BEAR LAKE
DEMPTSTER HIGHWAY
NORMAN WELLS
FORT NORMAN
RIVER
NORTHWEST TERRITORIES
LDEZ
YUKON TERRITORY
WRIGLEY
YELLOWKNIFE HIGHWAY
YELLOWKNIFE
CAMSELL BEND HIGHWAY PROJECT
AISHIHIK DAM
WHITEHORSE
FORT SIMPSON
GREAT SLAVE LAKE
ALASKA HIGHWAY
LIARD RIVER
WATSON LAKE
HAY RIVER
FORT LIARD
LOWER POST
CASSIAR
NELSON FORKS
FORT NELSON
DEASE LAKE
NITEAL CREEK
FT. MCMURRA
STIKINE RIVER
ALBERTA
BEATTON RIVER
B.C.R. RAILWAY PROJECT
HUDSON HOPE
FORT ST. JOHN
DAWSON CREEK
STEWART
MacKENZIE
MOBERLY LAKE
SLAVE LAKE
TAKLA LANDING
CHETWYND
KENNEDY SIDING
GRANDE PRAIRIE
SWAN HILLS
McLEOD LAKE
FORT ST. JAMES
PRINCE GEORGE
EDMONTO
BRITISH COLUMBIA
CALGARY

KEEN INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

ASSETS

	October 31	
	1975	**1974***
Current assets:		
Marketable securities	$ —	$ 65,081
Accounts receivable and accrued	11,230,604	10,457,572
Contract performance deposits	852,612	813,266
Inventory of repair parts and supplies at cost which is not in excess of replacement cost	4,275,024	3,321,137
Other receivables (Notes 4 and 7)	1,416,657	662,781
Prepaid expenses	385,553	203,931
	18,160,450	15,523,768
Trade holdbacks receivable	369,984	49,804
Deposit	—	250,000
Fixed assets, at cost less accumulated depreciation (Notes 1 and 4)	30,353,396	25,646,086
Goodwill, at unamortized cost (Note 1)	158,521	227,051
	$49,042,351	$41,696,709

APPROVED BY THE BOARD:

Director

Director

*Reclassified for comparative purposes

LIABILITIES

	October 31	
	1975	**1974***
Current liabilities:		
Excess of outstanding cheques over cash in bank	$ 1,818,363	$ 2,407,392
Bank loans, secured (Note 6)	4,800,000	4,600,000
Accounts payable and accrued (Note 6)	8,535,422	7,495,529
Current portion of long-term debt	5,378,054	3,142,972
	20,531,839	17,645,893
Deferred construction revenue	465,955	312,400
Long-term debt (Note 5)	10,845,344	6,955,675
Deferred income taxes (Note 1)	4,666,559	4,266,494
Minority interest in subsidiaries	204,358	98,548
Shareholders' equity:		
Share capital — (Note 8)		
Common shares without nominal par value		
Authorized — 2,000,000 shares		
Issued — 1,400,000 shares	8,666,295	8,666,295
Retained earnings (Note 9)	3,662,001	3,751,404
	12,328,296	12,417,699
Contingent liabilities and commitments (Note 10)		
	$49,042,351	$41,696,709

KEEN INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended October 31	
	1975	**1974***
Revenues:		
Construction	$ 40,969,128	$ 18,401,815
Petroleum services	9,478,931	5,858,889
Transportation	5,999,131	1,968,508
	56,447,190	26,229,212
Expenses:		
Direct operating	47,086,848	22,459,913
Provision for depreciation (Note 1)	3,879,560	2,215,380
Interest —		
Long-term	1,927,380	712,953
Short-term, less interest income of $30,041 (1974 - $214,515)	625,666	186,877
General and administrative	4,354,582	2,460,939
	57,874,036	28,036,062
Loss before income taxes, minority interest and extraordinary items	(1,426,846)	(1,806,850)
Provison for (recovery of) income taxes:		
Current	57,680	—
Deferred	(574,535)	(688,785)
	(516,855)	(688,785)
Loss before minority interest and extraordinary items	(909,991)	(1,118,065)
Minority interest in the income of subsidiaries	105,789	16,165
Loss for the year before extraordinary items	(1,015,780)	(1,134,230)
Extraordinary items:		
Recovery of income taxes due to the application of loss carry-forwards	200,698	—
Gain on sale of drilling operations, net of deferred income tax of $532,872	725,679	—
Loss for the year	(89,403)	(1,134,230)
Retained earnings, beginning of year	3,751,404	4,909,618
Minority interest in deficit of subsidiary at date of acquisition	—	(23,984)
Retained earnings, end of year	$ 3,662,001	$ 3,751,404
Loss per common share before extraordinary items (Note 11)	$ .73	$ .81
Loss per common share (Note 11)	$ .06	$ .81

*Reclassified for comparative purposes

KEEN INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended October 31	
	1975	**1974***
Funds provided:		
From operations —		
Loss for the year before extraordinary items	$ (1,015,780)	$ (1,134,230)
Less — Expenses not requiring an outlay of funds —		
Depreciation	3,879,560	2,215,380
Provision for (recovery of) deferred income taxes, less change in current portion	(574,535)	600,054
Minority interest	105,789	16,165
Other	16,351	33,811
Funds provided from operations	2,411,385	1,731,180
Issue of common shares	—	6,000,000
Proceeds on disposal of fixed assets	1,672,410	1,090,419
Proceeds on sale of drilling operations, less cost of sale	3,889,984	—
Long-term debt	11,633,992	8,218,624
Deferred construction revenue	153,555	312,400
	19,761,326	17,352,623
Funds applied:		
Purchase of fixed assets	9,719,697	12,281,527
Acquisition of subsidiary (Note 2)	1,788,583	—
Reduction in long-term debt	8,432,130	4,907,339
Trade holdbacks receivable	320,180	49,804
Deposit on purchase of shares	(250,000)	250,000
Other	—	282,132
	20,010,590	17,770,802
Increase in working capital deficiency	249,264	418,179
Working capital deficiency, beginning of year	2,122,125	1,703,946
Working capital deficiency, end of year	$ 2,371,389	$ 2,122,125

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31 **1975**

1. ACCOUNTING POLICIES:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of the Company and all its subsidiaries consisting of the following:

	Percentage Ownership
Arctic Air Ltd.	100.0%
Attachie Construction Ltd. (Note 2)	100.0
Belanger Holdings Ltd.	100.0
D.A.P. Rentals Ltd.	100.0
Eagle Industries Ltd.	100.0
Goodall Industries Ltd.	100.0
K-R-M Construction Ltd.	100.0
Keen Petroleum Ltd.	100.0
Keen Transport Ltd.	100.0
Northern (Fort Nelson, B.C.) Air Service Co. Ltd.	100.0
R. J. Keen Construction (1966) Ltd.	100.0
Tompkins Contracting Ltd. (Note 2)	100.0
Lundgren's Pacific Construction Co., Inc.	90.0
Pine Well Servicing Company Ltd.	90.0
Streeper Bros. Marine Transport Ltd.	83.3
Keen-Lee Oil Ltd.	80.0
Oilpatch Pipeline Services & Inspection Ltd.	52.0

Keen Drilling Ltd., a wholly-owned subsidiary, sold all of its assets and operations and was wound up during the year.

(b) Method of recording revenues—

The companies recognize revenues and expenses over the term of each contract. Construction contracts are typically unit price contracts and total revenues are finally determined at the completion of the contract based on work actually performed, for example, the number of cubic yards of earth moved. The customer normally makes monthly progress payments based on its preliminary survey of work completed, and takes a final survey to determine if revenues are due in excess of the progress payments.

The Companies accrue revenues in excess of progress payments over the term of a construction contract if it is estimated prior to the final survey that additional revenues will be due. Revenues in excess of these accruals, if any, are taken into income when the final survey is completed.

(c) Depreciation—

Fixed assets are depreciated on a straight-line basis over their estimated useful lives after recognition of estimated salvage values (Note 4). Expenditures for renewals and betterments which materially increase the estimated useful life of fixed assets are capitalized; expenditures for repairs and maintenance are charged to income. The cost and accumulated depreciation of fixed assets retired or sold are removed from the asset and related accumulated depreciation accounts; gains or losses thereon are included in the consolidated statement of income as depreciation expense.

(d) Equipment lease agreements—

The Company has entered into certain equipment lease agreements which are in substance instalment purchases of the assets. Accordingly, leased assets are included in fixed assets as construction equipment and aircraft, and the related unpaid commitment is included in long-term debt as "finance contracts payable" (Note 5). The leased equipment is being depreciated at appropriate rates as indicated in Note 4 and the lease payments, net of interest, are charged to related finance contracts payable.

When the Company enters into sale and lease-back arrangements which are in substance refinancing arrangements, no sale of fixed assets is recorded and the lease obligation is recorded as long-term debt.

(e) Goodwill—

Goodwill is being amortized on a straight-line basis over ten years.

(f) Deferred income taxes—

The Company has deducted capital cost allowances (depreciation) for income tax purposes in excess of depreciation charged to income; moveover, construction holdbacks receivable and unbilled revenue on railway construction contracts which have been included in income for book purposes are excluded from income for tax purposes until received. Mainly as a result of these provisions the Company and subsidiaries have deferred to future fiscal years income taxes otherwise payable.

(g) Government grants—

The Company and subsidiaries have accounted for tug and barge construction subsidies from the Government of Canada as a reduction in cost of the related fixed asset and accordingly subsidies are taken into income through reduced depreciation charges.

(h) Foreign Exchange—

The financial statements of a foreign subsidiary have been translated on the following basis:

Current assets and all liabilities at year end rates; fixed assets and shareholders' equity at historical rates; and revenues and expenses at the average rate for the year.

Gains and losses resulting from translation, which are not material, are included in the consolidated statement of income.

2. **ACQUISITION OF SUBSIDIARY:**

Effective November 1, 1974 the Company acquired all of the shares of Tompkins Contracting Ltd. and Attachie Construction Ltd. which are engaged in the oilfield hauling and construction industries. This acquisition has been accounted for by the purchase method.

The net assets acquired at the values assigned thereto are as follows:

Fixed assets		$ 3,118,815
Deduct:		
Long-term liabilities	$ 687,807	
Deferred income taxes	642,425	1,330,232
Net long-term assets acquired		1,788,583
Less-working capital deficiency		390,264
Net assets		$ 1,398,319
Consideration given:		
Cash		$ 648,319
Note payable (Note 5)		750,000
		$ 1,398,319

3. **SETTLEMENT OF CLAIM:**

The Company settled its claim with a customer relating to disputes arising out of two railway construction contracts. Under the settlement the Company was paid $1,737,000 for operational claims relating to work done from commencement of the projects in late 1972 to August, 1975 and was given increased unit prices for the

remainder of the work to be completed. Since no accrual in respect of this claim was made in any prior year, the amount of $1,737,000 is included in Construction revenues for the year ended October 31, 1975.

4. FIXED ASSETS:

	October 31 1975	October 31 1974	Estimated Useful Life
Land	$ 898,172	$ 399,959	
Buildings	2,121,620	1,333,633	10 years
Equipment:			
Construction and hauling	24,370,533	17,005,627	5 - 10 years
Service and drilling rigs	2,374,506	5,722,194	6 - 12 years
Aircraft	1,283,547	1,676,710	10 years
Tugs and barges	5,231,031	3,041,349	10 years
Transport trucks and trailers	704,135	670,364	5 years
Other	182,597	181,946	3 - 10 years
Deferred exploration expenditures	301,167	95,300	
	37,467,308	30,127,082	
Less- Accumulated depreciation	7,113,912	5,495,496	
	30,353,396	24,631,586	
Tugs and barges under construction	—	1,014,500	
	$30,353,396	$25,646,086	

During the year ended October 31, 1975 the Companies credited $257,064 (1974 - $225,173) to the cost of tugs and barges constructed during the year and on a cumulative basis has credited $735,121 to asset costs in respect of such subsidies. Subsidies of $297,305 (1974 - $413,041) are included in other accounts receivable.

5. LONG-TERM DEBT:

Long-term debt consists of the following:

	October 31 1975	October 31 1974
Long-term bank loans (Note 6) bearing interest at the bank's prime lending rate plus 2½% payable in monthly instalments of $221,000	$ 7,800,000	$ 8,080,000
Long-term bank loan (Note 6) bearing interest at the bank's prime lending rate plus 2½% repayable in annual instalments of $200,000 plus interest	500,000	—
12% mortgage payable secured by land and buildings, payable in monthly amounts of $3,868 including interest and principal through 1977	50,947	89,316
United States Small Business Administration loans bearing interest at 3% and 8%, secured by land, buildings and equipment, payable in monthly amounts of $13,515 including principal and interest	276,146	364,945
9% note payable to minority shareholder of a subsidiary payable in annual amounts of $20,000	81,405	100,000
11½% First mortgage bonds, Series "A" issued by Arctic Air Ltd., a wholly-owned subsidiary, and secured by a first fixed and specific		

	1975	1974
charge on its assets now existing or hereafter acquired, payable in 3 monthly payments of $4,785 through January 15, 1976, and one payment of $75,105 on February 15, 1976	89,460	146,880
Payable on acquisition of Tompkins Contracting Ltd., payable $350,000 September 5, 1976 and $400,000 September 5, 1977 plus interest at the bank's prime lending rate	750,000	—
Finance contracts secured by conditional sales contracts and capitalized leases on construction equipment and aircraft, payable in varying monthly amounts, bearing interest at 12% to 15%	6,675,440	1,307,741
Other	—	9,765
	16,223,398	10,098,647
Deduct — Portion due within one year	5,378,054	3,142,972
	$10,845,344	$ 6,955,675

Principal payments of long-term debt are due as follows:

Twelve months ending October 31, 1976	$5,378,054
1977	5,414,972
1978	4,503,012
1979	692,590
1980 and later	234,770
	$16,223,398

6. **CURRENT LIABILITIES:**

(a) As security for the operating bank loans as at October 31, 1975 and in respect of long-term bank loans of $7,800,000 (Note 5) the Company and subsidiaries have executed a general assignment of book debts in favour of the bank. As additional security for these bank loans the Company has executed a collateral demand debenture of $15,000,000 which provides a first fixed and specific charge on the otherwise unencumbered fixed assets and a first floating charge on all of its assets now existing or hereafter acquired.

In addition, a subsidiary has issued an assignment of book debts and a demand debenture for $1,500,000 as security for a long-term bank loan of $500,000. The debenture provides for a fixed charge on certain fixed assets and a floating charge on all assets of the subsidiary.

(b) As collateral security in respect to trade accounts payable and certain capitalized equipment leases, the Company has issued to a creditor a $1,500,000 demand debenture. The debenture provides for a fixed charge on certain equipment and a second floating charge on all assets.

7. **OTHER RECEIVABLES:**

On November 1, 1974 the Company purchased from the debenture holder a $58,700 demand debenture of Northline Transport Ltd., at par. The debenture bears interest at 12% and is convertible into fully paid-up common shares of Northline Transport Ltd. on the basis of ten shares for each $35 of debt secured by the debenture. Upon conversion the Company is required to pay to the former debenture holder a further $80,000 and after conversion Northline Transport Ltd. would be virtually a wholly-owned subsidiary of the Company. As at October 31, 1975 no conversion had been made by the Company.

The debenture, together with advances to Northline Transport Ltd. of $486,877, is included in other receivables in the consolidated balance sheet.

8. **SHARE CAPITAL:**

(a) In connection with the 1973 issuance of common shares the Company provided the underwriter with 10,000 warrants which enable the holder thereof to purchase, at $12.15 (U.S.), one common share per warrant at any time until November 17, 1977.

(b) The Company has adopted an Employee Share Option Plan and has reserved 60,000 common shares as at October 31, 1975. Under the plan, options have been granted as follows (to date no options have been exercised):

15,000 shares exercisable on or before October 31, 1976 at a price of $11.50 per share

26,500 shares exercisable on or before May 22, 1979 at a price of $5.75 per share

10,000 shares exercisable on or before August 14, 1980 at a price of $3.25 per share

8,500 shares reserved but not granted

60,000 shares

9. **RESTRICTION ON DIVIDENDS:**

Pursuant to the terms of the collateral demand debenture of $15,000,000 executed by the Company in favour of the bank (Note 6), the Company and its subsidiaries cannot, without the prior written consent of the bank, declare or pay any dividends on any shares of their present or future capital stock in excess of 25% of net income for years ending after October 31, 1974.

Pursuant to the terms of the 11½% First mortgage bonds, Series "A" issued by Arctic Air Ltd., a wholly-owned subsidiary, together with the related guarantee and collateral debenture of Northern (Fort Nelson, B.C.) Air Service Co. Ltd., a wholly-owned subsidiary of Arctic, no dividends can be declared or paid by Arctic Air Ltd. or its subsidiary without the prior written consent of the mortgage bondholder.

10. **CONTINGENT LIABILITIES AND COMMITMENTS:**

(a) As is customary in the industry, the Company, as a contractor, is subject to contingent liabilities with respect to the completion of contracts under performance. In addition, certain construction contracts provide for liens on the equipment used on the contract.

(b) Upon the request of the minority shareholders of the following subsidiaries the Company is committed to purchase, at any time after the dates shown below, their shareholdings at the fair market value thereof at the date of such request —

Lundgren's Pacific Construction Co., Inc. — July 1, 1976
Pine Well Servicing Company Ltd. — November 1, 1976

In the event that the minority shareholder of Pine Well Servicing Company Ltd. voluntarily terminates his employment before November 1, 1976 the shares held by him must be purchased by the Company for their cost, or, in the event of involuntary termination before such date, at the fair market value thereof at that time.

Upon request of the minority shareholder in Streeper Bros. Marine Transport Ltd., the Company is committed to purchase up to one-fifth of the minority interest shares each year commencing January 1, 1974 and ending January 1, 1978. The shareholder may offer up to one-fifth of the original shareholdings or the cumulative total that could have been offered in all previous years less the amount actually sold in those years; after January 1, 1978 the shareholder may offer all his remaining shares. The offer price is the greater of the cost of the shares to the shareholder amounting to $100,000 or the fair value thereof on the date the shares are offered. None of the shares have been offered to the Company as at October 31, 1975.

Since the determination of the fair market value of the above minority interest shareholdings as at the relevant dates is dependent on future circumstances, no reasonable estimate can be made at this time as to the amounts of these commitments.

(c) Under the terms of the tug and barge construction subsidy contracts with the Government of Canada (Note 1 (g)) the Company and subsidiaries are contingently liable to repay all or a portion of subsidies received in the event the tug or barge is not operated in Canadian waters for a period of five years after construction. At October 31, 1975 the maximum contingent liability is approximately $589,000 (1974 - $427,000).

(d) The Company is obligated under equipment and premises lease agreements to pay annual rentals as follows:

1976	$400,950
1977	293,510
1978	147,733
1979	56,740
1980	8,910

11. **LOSS PER COMMON SHARE:**

Loss per common share was computed by dividing the loss for the year by the weighted average number of common shares outstanding during each year (1.400,000 in 1975 and 1,395,616 in 1974). The outstanding dilutive factors have no significant effect upon earnings per common share.

12. **STATUTORY INFORMATION:**

Remuneration of Directors and Officers:

	1975		1974	
	Number	Amount	Number	Amount
Directors	8	$ 7,400	8	$ 8,000
Senior officers	7	203,510	5	145,067
Employees	4	156,004	4	138,796
		$366,914		$291,863

Two senior officers also serve as directors. The British Columbia Companies Act defines senior officers as including the five highest paid employees.

As at October 31, 1975 the Company and subsidiaries employed 489 people (630 in 1974) and salaries, wages and benefits paid during the year were approximately $17,100,000 ($10,900,000 in 1974).

AUDITORS' REPORT

To the Shareholders of Keen Industries Limited:

We have examined the consolidated balance sheet of Keen Industries Limited and its subsidiaries as at October 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one subsidiary company.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with Section 212 of the British Columbia Companies Act, we report that in our opinion due provision has been made for minority interests.

Price Waterhouse & Co

Chartered Accountants
Edmonton, Alberta
January 7, 1976

KEEN INDUSTRIES LIMITED AND CONSOLIDATED SUBSIDIARY

FIVE YEAR SUMMARY

Year ended October 31		1975	1974	1973	1972	1971
Revenues						
Construction	$'000	40,969	18,402	19,036	10,701	8,278
Petroleum Services	$'000	9,479	5,858	4,872	3,033	2,050
Transportation	$'000	5,999	1,969	1,554	1,054	439
Total Revenues	$'000	56,447	26,229	25,462	14,788	10,767
Net income (loss) before extraordinary item	$'000	(1,016)	(1,134)	2,023	1,048	834
Net Income (loss)	$'000	(89)	(1,134)	2,023	1,048	834
Earnings (loss) per share	$					
Basic	$	(.73)	(.81)	2.05	1.50	1.21
Extraordinary	$	.67	—	—	—	—
Total	$	(.06)	(.81)	2.05	1.50	1.21
Return on sales	%	Loss	Loss	7.9	7.1	7.7
Return on capital employed	%	Loss	Loss	16.8	14.4	14.8
Return on shareholders equity	%	Loss	Loss	38.4	43.2	57.1
Cash flow from operations	$'000	2,411	1,731	5,122	2,853	2,508
Depreciation	$'000	3,880	2,215	1,454	961	630
Capital Expenditures	$'000	9,720	12,282	9,052	4,044	2,704
Working Capital Deficiency	$'000	2,371	2,122	1,704	1,386	1,695
Net Fixed Assets	$'000	30,353	25,646	16,670	9,858	6,963
Total Assets	$'000	49,042	41,697	27,230	17,469	10,895
Capital Employed	$'000	28,510	24,051	15,247	8,814	5,748
Shareholders Equity	$'000	12,328	12,418	7,587	2,947	1,907
Salaries, wages and benefits	$'000	17,100	10,900	8,700	4,700	3,200
Number of employees at year end		489	630	515	454	295
Number of shares outstanding	'000	1,400	1,400	1,000	700	700
Number of shareholders		502	536	472	355	7

KEY TO THE NORTH
KEEN
INDUSTRIES LTD.

TOMPKINS
Contracting Ltd.
ROAD CONSTRUCTION AND HEAVY HAULING

KEEN
Transport Ltd.

PINE WELL SERVICING
COMPANY LTD.

STREEPER BROTHERS
Marine Transport

ARCTIC
AIR

LUNDGREN'S
PACIFIC
CONSTRUCTION
CO, INC.

KEY TO THE NORTH
KEEN
INDUSTRIES LTD.

Bulletin Commercial
PRINTERS EDMONTON
LITHOGRAPHED IN CANADA